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Report Highlights:

This report reflects how Panama has sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession. It also discusses the ongoing expansion of the Panama Canal, an ambitious public infrastructure investment plan and an expanding services sector that benefits from the country's emerging role as a regional hub for trade. Finance and transportation will support Panama's growing economic resilience and diversification. All of the above indicates that Panama is one of the best countries in Latin America to export goods, taking into account the increase in demand for high quality and diverse food products.

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SECTION I. MARKET OVERVIEW:

Panama has historically served as the crossroads of trade for the Americas. Its strategic location as a land bridge between two oceans and the meeting of two continents has made Panama not only a maritime and air transport hub, but also an international trading, banking, and services center.

Panama achieved Investment Grade status from the three major rating agencies between March and June of 2010. Since that time, Panama has continued on a path of growth and development.

Despite the financial crisis, Panama's economy managed to grow by 3.2 percent during 2009. After demonstrating positive economic growth in 2009, economic activity has picked up, with a GDP of \$25.8 billion for 2010 with a growth rate of 7.0 percent. Growth was spearheaded by the transportation, telecommunications, commercial and tourism sectors. Panama's economy is based primarily on a well-developed services sector, accounting for about 80 percent of GDP. Services include the Panama Canal, banking, the Colon Free Zone, insurance, container ports, and flagship registry.

The Colon Free Zone (CFZ), the second largest in the world after Hong Kong, is a vital trading and transshipment center serving the region and the world. CFZ imports – a broad array of luxury goods, electronic products, clothing, and other consumer products - arrive from all over the world to be resold, repackaged, and reshipped. Because of this product mix, U.S. market share is somewhat lower in the

CFZ than in Panama. Hong Kong is the CFZ's biggest supplier, while Colombia and Ecuador are the two largest destinations for exports from the CFZ.

Panama is once again on pace to outperform regional and global averages in terms of real GDP growth. Meanwhile, inflation returned to low levels after the 2008 spike, with a level of 2.4 percent in 2009 and a forecast of 3.3 percent for 2010.

Foreign direct investment (FDI) remains one of Panama's main drivers for growth, increasing by 26 percent in the first half of 2010, vis-à-vis the same period last year. FDI inflows reached US\$1.7 billion in 2009, or 7.3 percent of GDP.

Panama has no restrictions on the outflow of capital or outward direct investment. Its accession to the World Trade Organization in mid-1997 opened up trade and lowered tariffs across the board, giving Panama the lowest average tariff rate in Latin America.

2011 and 2012 will represent the years of greatest activity in the civil works of the Panama Canal Expansion, translating into the largest demands for jobs and funds of project as public investment kicks in. As of August 31st, 2010, the Panama Canal Authority (ACP) had awarded contracts totaling US\$3.95 billion. In fact, the Panama Canal recently celebrated its 1 millionth transit with the announcement it had closed FY2010 (Oct.1-Sept.30) with 300.7 million tons of transit during a difficult year for the global economy. The Canal's all-time highest record is 312.9 million tons, which was recorded in the boom year of 2007. Canal toll revenue for FY2010 (Oct.1-Sept.30) reached US\$1.466 billion, which represent a US\$28 million increase from the US\$1.438 billion collected in FY2009. \$754 million were the dividends budgeted to be paid out by the ACP to the Panamanian State Treasury in FY2010.

The Panamanian economy recorded a positive balance of US\$1.12 billion in its capital account for the first half of 2010.

External operations done by the banking sector reached US\$512 million in bonds and securities issued abroad. Additionally, short and long term loans with international banks and financial entities increased to US\$51.2 million.

It now appears that even the revised figure of 9 percent nominal GDP growth will be easily passed for 2011. Revised revenue forecasts for 2010 are closer to those originally anticipated for 2011. It is highly likely that this trend will continue, given how recent growth perspectives have outperformed the base assumptions used to create the strategic government plan. Given these circumstances, a fiscal performance superior to that planned in accordance with the Social Fiscal Responsibility Law (SFRL) is likely to be accomplished, that will allow the weight of public debt in relation to GDP to reduce to levels below 40 percent.

As of December 31, 2009, the balance in global bonds of the Republic of Panama amounted to US\$ 8.07 billion and a coupon of 5.20 percent, representing 73.6 percent of total public debt. The EMBI+ index is a clear example that international markets recognized Panama's achievements as the Republic's global bonds traded at similar or lower spreads to those of countries with the Investment Grade rating. The Credit Default Swaps (CDS) of the Republic of Panama are currently quoting below the

levels of countries which had achieved Investment Grade prior to Panama.

Investment grades given to Panama, due to a sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession, also the ongoing expansion of the Panama Canal, an ambitious public infrastructure investment plan and an expanding services sector that benefits from the country's emerging role as a regional hub for trade, finance and transportation will support Panama's growing economic resilience and diversification:

- Fitch Ratings (March 23, 2010): BBB- Positive
- Standard & Poor's (May 25, 2010): BBB- Stable
- Moody's (June 9, 2010): Baa3 Stable

The recently released World Economic Forum Global Competitiveness Index 2010-2011 saw Panama jump 6 places from 59th to 53rd in the world. Panama ranked as the second most competitive country in Latin America, trailing only Chile. Panama's competitive advantages clearly lie in its productive infrastructure, the ability to attract FDI, its sophisticated financial sector, and an improving technological platform. Also, Panama is ranked as having the highest air connectivity in the Americas by the International Air Transport Association (IATA). The Tocumen International Airport has become the preeminent air transportation hub in the Latin American region.

The Panamanian Government is a firm believer in free trade and commercial openness. Panama's economic success is tied to a healthy and prospering global trade system. In this way, Panama recognizes the clear link between free trade and competitiveness and seeks to join an elite group of countries that have achieved growth and development through trade. Panama has Free Trade Agreements in force with: Chile, Singapore, China (Taiwan), Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). Also it has Free Trade Agreements requiring partner's formal sanction: Canada, European Union and United States. Currently Panama is negotiating or starting negotiations for free trade agreements with Peru, Colombia, European Free Trade Association, South Korea.

Panama's Population (May 2010) is 3,322,576. The annual population growth rate is 1.503 percent, with open Unemployment of 4.7 percent

Panama's diversified food industry is a major and stable sector of the economy. Many local companies have been acquired or have teamed up with multinational corporations as a strategy to increase global exports. Besides bananas, sugar, seafood, shrimp, fishmeal, coffee and meat, exports of other products, such as alcoholic beverages, fruits and vegetables, poultry and eggs, have increased significantly in recent years.

The U.S. continues to be Panama's leading trading partner. Panama's largest food import suppliers are as follows: United States (66.35 percent with 416,212.22 Metric Tons of Food Products), Costa Rica (8.18 percent), Colombia (7.37 percent), Mexico (3.45 percent) and Argentina (2.01 percent). Most of the food imports from the United States are bulk agricultural commodities such as yellow corn for feedstock, wheat, soybean meal for feedstock, rice and snack foods.

Consumer attitudes and many brand preferences are similar to the United States, U.S. television, radio and magazines are all available and popular in Panama. Panamanians frequently travel to the U.S. for vacation, medical treatment, study and business. Their buying patterns and tastes are similar to those of U.S. consumers.

U.S. goods and services enjoy a reputation for high quality and are highly competitive. Panama boasts the highest per capita GDP in the region at around US\$ 11,700 (2008 est. purchasing power parity).

Advantages	Challenges
<p>Political situation stable/democratic for 21 consecutive years after end of military dictatorship.</p> <p>Strong political alliance with the U.S. Favorable position towards U.S. policies and interests in all international organizations.</p>	<p>Possible competition from other countries such as Canada, European countries, Guatemala, Costa Rica Chile and China. Free Trade Agreements with other countries may be in detriment of U.S. food products, especially if the Trade Promotion Agreement is not ratified in the U.S. Congress and U.S. Senate.</p>
<p>U.S. Panama SPS and TBT Agreement that entered into force in February 2007 eliminated SPS barriers. Importing products from the U.S. is now easier than from other countries. The Panamanian Food Safety Authority works quickly and transparently with respect to the enforcement of food import, food registration and regulations.</p>	<p>Strong competitors: For snacks and processed foods – Central America countries and China. For fruits and other products, Chile and Mexico. For grains and oils: Argentina, Canada and Brazil. For meat, Canada. For Dairy products: Costa Rica, Argentina, New Zealand and Australia.</p>
<p>U.S. dollar economy since 1904.</p>	<p>Poverty and unemployment affect consumers' buying power. World economic situation is affecting Panama as well, but at a smaller scale.</p>
<p>GDP growth higher than the region's average during the last few years (7 percent in 2010). Economic future looks promising with expansion of the Panama Canal project leading this trend.</p>	<p>Rising energy costs, commodity prices, and food prices hurt small economy.</p>
<p>Strong preference for U.S. way of life, manner of doing business, and products.</p>	<p>Income distribution is highly skewed toward a relatively small, consumer goods-oriented, economically powerful class. This class enjoys a very high level of disposable income. They prefer high quality trend-setting goods where price is a secondary determinant in the purchasing decision.</p>
<p>More U.S. citizens relocating/retiring in Panama will increase demand for American food products. And Venezuelans, Colombians and</p>	<p>Continued improvements in the areas of educational and judicial reform will be critical for Panama to improve its business</p>

Europeans that has immigrate in Panama as Foreign Investors will increase the demand for High Quality food products, which the U.S. can offer.	competitiveness standing in the region.
Strong financial and transportation sectors facilitate international trade flows.	
The Colon Free Zone attracts a wide variety of consumer oriented food and beverage products. Panamanian consumers have access to more goods than often available in such a small country.	

SECTION II. EXPORTER BUSINESS TIPS

Due to its open economy, Panama has no market access problems. One of the more common market entry options is to appoint an agent or distributor. Another option is to find a local partner who can provide market knowledge and contacts. Other businesses have been successful via licenses or franchises.

According to Panama's constitution, nationals and foreigners are treated equally under the law. Both Panamanian and foreign companies must fulfill the same basic requirements to organize and operate most types of business activities in Panama. There are restrictions on foreigners participating in retail trade and practicing certain professions.

There is no law regulating the relationship between international suppliers and local agents and distributors. This relationship is only governed by the private agreements made between the parties involved. In cases of contract termination or disputes, the private contract clauses prevail over any other document or practice.

Individuals may engage in business activities in their own names or through legal entities. The most commonly adopted form of legal entity is the corporation (Sociedad Anonima, or S.A.). Other types of legal entities commonly used in Panama are general partnerships, simple limited partnerships, joint stock partnerships, and limited liability companies. Two or more persons of any nationality may organize a corporation for any lawful purpose. They do not have to be domiciled in Panama. The articles of incorporation may be executed anywhere, even outside of Panama, and in any language, provided a Spanish translation is submitted for registration. There are no requirements regarding the amount paid in capital. There are no nationality or residence requirements for shareholders. Neither the directors nor the officers are required to be shareholders.

Panama is receptive to U.S. style franchising. The market for both specific and general franchising opportunities is attractive. Panama maintains no control on royalty payments or transfers. Recreation, entertainment services, fast food, automotive, and hotel and motel franchises are readily marketable as the local market demands better facilities and services. The U.S. Embassy recommends consulting a local attorney for details on how to set up a franchise in Panama.

Local laws allow companies and individuals to import directly with no intervention from agents or distributors. This situation opens the door for a direct marketing approach especially in certain sectors

such as industrial goods, industrial machinery, agricultural equipment and other high value equipment or machinery.

Panamanian Importers who are the decision-makers are fully bilingual (Spanish-English), therefore the U.S. Exporter should have a personalized approach with consistent attention in service and delivery with frequent visits and follow-ups. It is important to have a Custom Agent (Broker) with experience that can work in importing the food products, with the Importing Company.

The Exporter should arrange with the Importer how to protect and register the trademarks. And provide display samples and volume flexibility in orders.

SECTOR III. MARKET SECTOR STRUCTURE AND TRENDS:

Business practices in Panama are very similar to those in the United States. Business tends to be direct and straightforward. On average, Panama City accounts for 65 percent of total national sales of consumer goods. The remaining 35 percent is distributed among the principal cities of David, Colon, Santiago and Chitre.

Generally, the marketing channel structure in Panama is simple. Direct importers act as wholesalers and in many cases also as retailers. This situation is common in the case of apparel, automotive parts and hardware products. In the case of consumer goods, food and medicines, the retail operation is separate from the wholesale operation. For industrial goods, sales are normally handled by local exclusive agents or distributors. In other cases, local firms order directly from U.S. brokers or the manufacturer. Some of Panama's major importers are also regional distributors for Central and/or South America, with warehousing facilities located in the Colon Free Zone (CFZ). Generally, CFZ importers/distributors have affiliated stores in Panama City for retail sale to the local market.

Most of Panama's trade moves through the Atlantic ports of Manzanillo, Cristobal and Evergreen, and Balboa on the Pacific. The Tocumen International Airport handles the bulk of Panama's air cargo.

Panama has the highest per capita income in Central America. However, the majority of income is skewed to a small, consumer goods-oriented economic class. These upper-middle and upper income class families have high levels of disposable income. They are interested in purchasing high quality, trend-setting goods. Price is less of a factor in purchasing decisions made by this class than for the middle and lower income classes. The majority of Panamanians are interested in quality, but price still plays a more important role in the purchase decision.

The use of the U.S. dollar as legal currency and consumer preference for high quality products at competitive prices are two reasons for high acceptance of U.S. products in Panama. Overall, U.S. products are well accepted in the market and are considered of good quality. However, in many instances, U.S. products must compete against lower priced products especially from Asia.

Preference continues to grow towards supermarkets and away from traditional markets. Today's supermarkets are able to offer reduced consumer prices relative to traditional retail, and in effect, raising real income. Supermarkets exhibit increasing product safety and diversity, within the 5 largest

supermarket chains: Super 99 (owned by the President of Panama, Ricardo Martinelli), Supermercado Rey, Super Xtra, Riba Smith and Machetazo.

Television and newspaper advertising are the promotion tools of choice for the majority of distributors of U.S. products. E-mail marketing is becoming increasingly popular, especially for services. Panama has a very competitive advertising market, with standardized pricing and very good production quality. Additionally, trade shows, specialized seminars and exhibitions are effective tools for trade promotion. Special sale prices during events such as Mother's and Father's Day, Back-to-School, and Easter are usually advertised in newspapers during weekends.

Most foreign manufacturers of consumer products maintain a high profile presence in the country through newspaper ads, large billboards, sponsored sports events, and TV advertising. Radio advertising is mainly used outside of the Panama City metropolitan area. Major Newspapers:

- La Prensa: <http://www.prensa.com>
- Panama America: <http://www.pa-digital.com.pa>
- La Estrella de Panama: <http://www.estrelladepanama.com>

Import product prices are based on CIF value plus any existing import taxes, custom agent fees, in-country transportation costs, and other product-related costs such as change of label. The pricing usually excludes U.S. domestic marketing costs, allowing a more-competitive and attractive price in the Panamanian market.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS:

The best prospects for U.S. Food Exports to Panama continue to be bulk commodities (yellow corn, paddy rice, soybean meal, wheat flour), but the area of high value products continues to offer good market opportunities as well. In recent years, consuming more convenience and healthy foods has been the trend and has resulted in good prospects for U.S. exports of fresh fruit (mainly apples, grapes, peaches and pears), organic foods, processed fruits and vegetables (especially canned fruits), and snack foods (including corn chips, pop corn, cookies and candies). Processed canned fruits and vegetables, especially mixed fruits, mixed vegetables, yellow sweet corn, peas, mushrooms, and garbanzo beans generate strong import demand.

U.S. Agricultural Exports Statistics to Panama attached.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION:

1. U.S. Embassy Commercial, Agricultural and Trade-Related Contacts

U.S. Department of Agriculture (USDA)
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Ms. Kelly Stange, Regional Agricultural Attaché (based in San Jose, Costa Rica)

Miss. Arlene Villalaz, Agricultural Specialist for Panama

Ms. Maria Victoria Guardia, Administrative Assistant for Panama

Economic Section, U.S. Department of State

Embassy of the United States of America, at Panama city

Jonathan A. Plowman, Counselor for Economic Affairs

Tel: (507) 207-7301

U.S. Commercial Service

Tel: (507) 207-7000

Fax: (507) 317-1658

www.buyusa.gov/panama/en/

Mr. Daniel Crocker, Senior Commercial Officer

Tel : (507) 207-7388

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2. Public Institutions:

Autoridad Panameña de Seguridad de Alimentos (AUPSA)

Panamanian Food Safety Authority

Dr. Alcides Jaen, General Administrator

Tel: (507) 522-0005

Fax:(507) 522-0014

Web Site: www.aupsa.gob.pa

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Ministerio de Desarrollo Agropecuario,

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Mr. Emilio Kieswetter, Minister

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Panama, Republic of Panama

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Fax: (507) 512-9240
Web Site: www.minsa.gob.pa

3. American Chamber of Commerce and Industry of Panama (AmCham)

P.O. Box 0843-0152
Panama, Republic of Panama
Mr. David Hunt, Executive Director
Tel: (507) 301-3881
Fax: (507) 301-3882
Web Site: www.panamcham.com

4. ACOVIPA - Panamanian Association of Importers and Distributors of Food Products

Mr. Rigoberto Gonzalez, Executive Director
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- Panamanian Food Safety Authority. Statistics of Food Imports. 2010

APPENDIX - STATISTICS

